This commentary is intended to supplement the quarterly earnings press release and presentation that are also available on our website at investors.franklinresources.com. See important information regarding Forward-Looking Statements at the end of this commentary.

Conference Call Details

Franklin Resources, Inc.’s Chairman and CEO Greg Johnson and CFO and Executive Vice President Ken Lewis will lead a live teleconference today at 11:00 a.m. Eastern Time to answer questions of a material nature. Access to the teleconference will be available via investors.franklinresources.com or by dialing (877) 407-8293 in the U.S. and Canada or (201) 689-8349 internationally. A replay of the teleconference can also be accessed by calling (877) 660-6853 in the U.S. and Canada or (201) 612-7415 internationally using access code 13652411, after 2:00 p.m. Eastern Time on January 27, 2017 through February 27, 2017.

Analysts and investors are encouraged to review the Company’s recent filings with the U.S. Securities and Exchange Commission and to contact Investor Relations at (650) 312-4091 before the live teleconference for any clarifications or questions related to the earnings release or written commentary.

Greg Johnson. Chairman and CEO

Highlights (p. 4 of First Quarter Results presentation)

- The fiscal year began on a positive note as the strong rebound in our investment performance continued and a majority of U.S. and cross-border mutual funds ranked in the top half of their peer group across the 1-, 3-, 5- and 10-year time periods, and the improvement in performance against benchmarks was even more pronounced.

- A key driver of this improvement was Templeton Global Bond Fund which outperformed its Lipper peer group average in the U.S. by nearly 1,300 basis points during the quarter while the cross-border version of the fund outperformed its Morningstar peer group average by nearly 1,400 basis points.

- Other key funds, including Franklin Income, Templeton Foreign, Templeton Asian Growth and Templeton Developing Markets Trust generated top decile relative performance against their peer group for the 1-year period.
• U.S. retail sales increased for the first time since the 2\textsuperscript{nd} quarter of fiscal 2015, following improved relative performance of flagship funds.

• Financial results continue to be solid as effective expense management resulted in increased operating income, to almost $600 million, and a higher operating margin of 37.6%.

• On the capital management side, the company’s Board of Directors increased the regular dividend 11%, marking the 33\textsuperscript{rd} consecutive annual increase.

• We also repurchased 7 million shares during the quarter, more than offsetting the impact of year-end compensation-related equity awards issued in the first quarter, as we have done for many years. Our combined payout ratio remained very healthy at 94% for the trailing twelve months.

• I am encouraged by some of the early successes of our Franklin LibertyShares launch in June. For example, Franklin LibertyQ Emerging Markets ETF was one of the industry’s most successful ETF launches of 2016, raising the third most assets.

\textbf{Investment Performance (p. 6 of presentation)}

• Delivering strong, long-term performance remains paramount in this business. As interest rates have risen, and value outperformed, a number of our investment strategies have benefited.

• Templeton Global Bond funds finished 2016 exceptionally strong, outperforming the benchmark and delivering top decile performance among its U.S. and cross-border peer group for the quarter, improving relative performance for the 1-, 3-, 5- and 10-year periods to the top quartile.

• Franklin Income Fund extended its performance rebound as well, outperforming its benchmark, with relative performance ranking in the top 3\% for 2016. The fund now ranks in the top quartile versus its peer group for the 1-, 3-, 5- and 10-year periods.

\textbf{Assets Under Management and Flows (pp. 7 - 9 of presentation)}

• Assets under management ended the quarter at $720 billion, a 2\% decrease from prior quarter end. Average assets under management experienced a similar decline and were $723 billion for the quarter. Assets under management remain well diversified by investment objective and sales region.

• This quarter we are introducing an updated presentation of product flows, focusing on long-term net flows. Although we continue to disclose all key components, we removed the subtotal of net new flows. This approach simplifies and conforms our presentation, as we were the only firm offering a calculation of both net new flows and net flows, and better reflects the evolving nature of our business, by including reinvested distributions. Due to the prevalence of omnibus accounting, (almost 90\% of relationships, nearly doubling over the last six years) reported redemptions tend to be inflated by the way many of those intermediaries typically handle reinvestments. If you have additional questions regarding the new methodology please contact investor relations.
- Net outflows improved this quarter as overall gross sales increased to its highest level since the year ago period; however, redemptions also increased a bit this quarter, though the net increase was largely attributable to the expected variable annuity redemptions of $2.7 billion we highlighted last quarter.

- Net market change and other of $1 billion contributed only slightly to the change in assets during the quarter.

- Retail sales continue to be challenged, given ongoing volatility, concerns over the upcoming Department of Labor fiduciary rule implementation, and uncertainty around the new administration in the U.S.

- However, U.S. retail sales increased for the first time since the March quarter of 2015. Performance improvements within several flagship funds are beginning to translate to improved flow results as a number of these funds generated higher sales this quarter, including the Global Bond and Franklin Income strategies.

- Our floating rate products, which are well positioned for a rising rate environment, also generated strong sales this quarter.

- On the other hand, retail redemptions increased about 16%, due mostly to increased redemptions from our variable annuity business, including the large outflow highlighted previously. We still expect another insurance company to redeem $4.6 billion from various strategies, across investment objectives, in our second quarter, as they move more of their clients’ assets into passive products.

- Although flow trends in the variable annuity space have not been favorable for us in recent quarters, as some of our early insurance partners have exited the business or made a strategic shift to passive management, we continue to focus on new growth opportunities. For example, in January, our Solutions team launched the first non-managed volatility Multi-Asset portfolio eligible for a living benefit guarantee on a large insurance platform.

- Institutional flows improved a bit this quarter, with redemptions at their lowest point in twelve quarters, but sales remained tepid. However, we continue to see a wide range of asset classes attracting interest from clients in our pipeline, particularly in the U.S. and Europe.

- High net worth flows turned positive as Fiduciary Trust recorded its second highest level of quarterly sales in the last seven years, adding $800 million in client commitments from new and existing relationships.

**Flows by Investment Objective (pp. 10 - 12 of presentation)**

- Looking at flows by investment objective, global equity flows improved this quarter as sales increased and redemptions decreased broadly across the category. Strong performing funds such as Franklin Mutual Global Discovery Fund attracted the lion’s share of the improved sales.

- Global fixed income net flows were essentially unchanged this quarter as improved retail sales were offset by lower institutional sales.

- While performance improvements in Templeton Global Bond and Total Return funds have held up consistently over the past quarter, it can take up to a year or more of sustained outperformance before flows significantly turnaround. That said, certain investors respond to performance improvements more quickly, particularly those in the European region. In fact, sales into the cross-border versions of the funds increased by 30% this quarter, their highest level in about a year.
• U.S. equity experienced higher redemptions due to the variable annuity redemptions highlighted, however, overall net outflows improved. Investment performance has been strong in select Franklin and Mutual Series strategies including the Franklin Rising Dividends Fund, one of our largest U.S. equity funds, which returned over 14% for the year.

• Hybrid sales improved driven mostly by a successful quarter for our high net worth business. Additionally, Franklin Income Fund sales increased as mentioned, but these positives were offset by higher redemptions from the variable annuity business as well as more broad based redemptions from the category as a whole, leading to net outflows of about $1 billion.

• Though relative performance has been good within our larger tax-free fixed income funds, absolute performance was broadly negative for the quarter. As a result, we saw a spike in redemptions this quarter, following five consecutive quarters of improving flows, particularly from our long-duration muni funds.

• The municipal bond market overall experienced negative performance this quarter, due to several factors, including a sell-off in rates, the steepening of the muni yield curve, and heightened outflows. Much of the volatility occurred following the U.S. presidential election as investors viewed the new administration’s policies as inflationary, with heightened uncertainty around future tax policy. On the credit front, there has been little change in overall underlying market fundamentals; therefore, we believe the recent sell-off was more a resetting of valuations and a reversal of technical conditions rather than a re-pricing of credit risk, and we see taxable-equivalent yields in these products as compelling.

• Excluding the impact of variable annuity redemptions, taxable fixed income flows were essentially flat this quarter. Strong flows into floating rate debt funds were offset by redemptions from high yield and investment grade strategies.

Ken Lewis, CFO

Quarterly Financial Highlights (p. 14 of presentation)

• First quarter operating results were solid, exhibiting our continued focus on cost management. Operating income of $587 million was a 1% increase from the prior quarter, despite lower assets under management and related revenue.

• Net income was $440 million and earnings per share was $0.77. The decrease in net income from the prior quarter was primarily attributable to lower investment and other income and a higher tax rate. Partially offsetting that was another 1% net reduction in average shares outstanding.

Operating Revenues and Expenses (pp. 15 - 17 of presentation)

• Investment management fees decreased modestly, reflecting the change in assets under management, lower performance fees of only $1.6 million, and a negative mix shift toward lower-fee products.

• Sales and distribution fees decreased 5% due to lower U.S. commissionable sales and assets under management. For the quarter, U.S. retail sales increased about 5%; however, commissionable sales declined by 15%.
• Other revenue was $22 million this quarter. The increase from last quarter was due to the adoption of new consolidation guidance as of October 1, 2016, which caused the consolidation of additional sponsored investment products (“SIPs”) as explained in more detail in our latest Form 10-Q filed with the SEC this morning.

• Slide 26 of the presentation summarizes the impact to earnings of consolidated SIPs.

• Turning to expenses, sales, distribution and marketing expense decreased along with related revenue. Sales and distribution fees, net was approximately $(100) million and consistent with the prior quarter, excluding a small accounting adjustment.

• Compensation and benefits declined 2%, due to lower variable compensation in the quarter, that was principally a result of a determination that certain performance awards granted in prior years were not going to vest. This is not expected to repeat in the second quarter.

• Information systems and technology experienced the typical seasonal decrease, but we are expecting technology investments to increase this expense by 5% to 7% for the full year.

• General, administrative and other expense was also seasonally lower but a fair value adjustment of the contingent consideration liability from a prior acquisition was also a benefit in the quarter.

• The decrease in operating expenses, which more than offset the decline in revenues, resulted in an operating margin of 37.6% for the quarter and fiscal year-to-date period.

• Next quarter, considering the normal seasonal increase in compensation from merit increases and payroll taxes, we expect a quarter-over-quarter increase in compensation expense of 5% to 7%. However, we still expect year-over-year compensation expense savings of around 4%.

• Our current forecast is for year-over-year, non-sales, distribution and marketing expenses to decrease by 2% to 4% on an as reported basis.

**Other Income and Taxes (p. 18 of presentation)**

• Other income, net of noncontrolling interests related to SIPs, was $61 million this quarter. The primary drivers of this, as illustrated on slide 18 of the presentation, were gains from equity method investments and unrealized foreign exchange gains.

• The tax rate for the quarter was 32.4%, above the range we guided to last quarter, due to the impact of noncontrolling interests and a shift towards earnings in higher tax jurisdictions. Assuming the current mix of earnings, we are forecasting a fiscal year rate of 32%, plus or minus 50 basis points.
Capital Management (pp. 20 - 22 of presentation)

- Touching on capital management, in December, the company’s Board of Directors increased the regular dividend, extending our track record of annual dividend increases, with a 10 year compound annual growth rate of 15%.

- During the quarter we repurchased 7.1 million shares for a total cost of $262 million, up 2% from the prior quarter, as both buyable volumes and average prices increased. Over the last five years, net repurchases produced average annual accretion of 2.7%.

- The trailing twelve months payout was $1.6 billion and represented 94% of net income.

Forward-Looking Statements

Statements in this commentary regarding Franklin Resources, Inc. (“Franklin”) and its subsidiaries, which are not historical facts, are “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. When used in this presentation, words or phrases generally written in the future tense and/or preceded by words such as “will,” “may,” “could,” “expect,” “believe,” “anticipate,” “intend,” “plan,” “seek,” “estimate” or other similar words are forward-looking statements. Forward-looking statements involve a number of known and unknown risks, uncertainties and other important factors, some of which are listed below, that could cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward-looking statements. While forward-looking statements are our best prediction at the time that they are made, you should not rely on them, and you are hereby cautioned against doing so. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. They are neither statements of historical fact nor guarantees or assurances of future performance.

These and other risks, uncertainties and other important factors are described in more detail in Franklin’s recent filings with the U.S. Securities and Exchange Commission, including, without limitation, in Risk Factors and Management’s Discussion and Analysis of Financial Condition and Results of Operations in Franklin’s Annual Report on Form 10-K for the fiscal year ended September 30, 2016 and Franklin’s subsequent Quarterly Report on Form 10-Q:

- Volatility and disruption of the capital and credit markets, and adverse changes in the global economy, may significantly affect our results of operations and may put pressure on our financial results.
- The amount and mix of our assets under management (“AUM”) are subject to significant fluctuations.
- We are subject to extensive, complex, overlapping and frequently changing rules, regulations and legal interpretations.
- Global regulatory and legislative actions and reforms have made the regulatory environment in which we operate more costly and future actions and reforms could adversely impact our financial condition and results of operations.
- Failure to comply with the laws, rules or regulations in any of the jurisdictions in which we operate could result in substantial harm to our reputation and results of operations.
- Changes in tax laws or exposure to additional income tax liabilities could have a material impact on our financial condition, results of operations and liquidity.
• Any significant limitation, failure or security breach of our information and cyber security infrastructure, software applications, technology or other systems that are critical to our operations could disrupt our business and harm our operations and reputation.
• Our business operations are complex and a failure to properly perform operational tasks or the misrepresentation of our products and services, or the termination of investment management agreements representing a significant portion of our AUM, could have an adverse effect on our revenues and income.
• We face risks, and corresponding potential costs and expenses, associated with conducting operations and growing our business in numerous countries.
• We depend on key personnel and our financial performance could be negatively affected by the loss of their services.
• Strong competition from numerous and sometimes larger companies with competing offerings and products could limit or reduce sales of our products, potentially resulting in a decline in our market share, revenues and income.
• Changes in the third-party distribution and sales channels on which we depend could reduce our income and hinder our growth.
• Our increasing focus on international markets as a source of investments and sales of investment products subjects us to increased exchange rate and market-specific political, economic or other risks that may adversely impact our revenues and income generated overseas.
• Harm to our reputation or poor investment performance of our products could reduce the level of our AUM or affect our sales, and negatively impact our revenues and income.
• Our future results are dependent upon maintaining an appropriate level of expenses, which is subject to fluctuation.
• Our ability to successfully manage and grow our business can be impeded by systems and other technological limitations.
• Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.
• Regulatory and governmental examinations and/or investigations, litigation and the legal risks associated with our business, could adversely impact our AUM, increase costs and negatively impact our profitability and/or our future financial results.
• Our ability to meet cash needs depends upon certain factors, including the market value of our assets, operating cash flows and our perceived creditworthiness.
• We are dependent on the earnings of our subsidiaries.

Any forward-looking statement made by us in this commentary speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

*The information in this commentary is provided solely in connection with this commentary, and is not directed toward existing or potential investment advisory clients or fund shareholders.*